

Senate Bill No. 103

CHAPTER 655

An act to amend Section 24871 of the Revenue and Taxation Code, relating to taxation.

[Approved by Governor October 2, 2003. Filed with
Secretary of State October 2, 2003.]

LEGISLATIVE COUNSEL'S DIGEST

SB 103, Alpert. Sales and use taxes.

The Corporation Tax Law imposes taxes measured by income and, in the case of a business with income derived from or attributable to sources both within and without this state, the business income is apportioned between this state and other jurisdictions for tax purposes in accordance with a specified formula based on the property, payroll, and sales of the business within and without this state. The existing Corporation Tax Law generally conforms with the federal income tax treatment of regulated investment companies (RIC) that allow a RIC to pass ordinary income on to the shareholders without incurring any tax liability to the RIC.

This bill would clarify that dividends received by a California corporate shareholder from a RIC are generally not excludable from the income of that corporate shareholder. This bill would declare that this clarification is operative for taxable years beginning on or after January 1, 2003.

The people of the State of California do enact as follows:

SECTION 1. Section 24871 of the Revenue and Taxation Code is amended to read:

24871. (a) (1) Section 852(b)(1) of the Internal Revenue Code, relating to imposition of tax on regulated investment companies, does not apply.

(2) Every regulated investment company shall be subject to the taxes imposed under Chapter 2 (commencing with Section 23101) and Chapter 3 (commencing with Section 23501), except that its "net income" shall be equal to its "investment company income," as defined in subdivision (b).

(b) "Investment company income" means investment company taxable income, as defined in Section 852(b)(2) of the Internal Revenue Code, modified as follows:

(1) Section 852(b)(2)(A) of the Internal Revenue Code, relating to an exclusion for net capital gain, does not apply.

(2) Section 852(b)(2)(B) of the Internal Revenue Code, relating to net operating losses, is modified to deny the deduction allowed under Sections 24416 and 24416.1, in lieu of denying the deduction allowed by Section 172 of the Internal Revenue Code.

(3) In lieu of the provision of Section 852(b)(2)(C) of the Internal Revenue Code, relating to special deductions for corporations, no deduction shall be allowed under Sections 24402, 24406, 24410, and 25106.

(4) The deduction for dividends paid, under Section 852(b)(2)(D) of the Internal Revenue Code, is modified to allow capital gain dividends and exempt interest dividends (to the extent that interest is included in gross income under this part) to be included in the computation of the deduction.

(c) Section 852(b)(3)(A) of the Internal Revenue Code, relating to capital gains, does not apply.

(d) Section 852(b)(5)(B) of the Internal Revenue Code, relating to treatment of exempt interest dividends by shareholders, does not apply.

(e) Section 854 of the Internal Revenue Code, relating to limitations applicable to dividends received from regulated investment companies, is modified to refer to Sections 24402, 24406, 24410, and 25106, in lieu of Section 243 of the Internal Revenue Code.

SEC. 2. (a) The amendments made to Section 24871 of the Revenue and Taxation Code by this act shall be applied to taxable years beginning on or after January 1, 2003.

(b) It is the intent of the Legislature that no inference be drawn in connection with any matter governed by Section 24871 of the Revenue and Taxation Code, from the period to which the amendments made to that section by this act apply, for any taxable year beginning before January 1, 2003.

